GAMBLING IN CANADA SPECIAL REPORT:

VIDEO LOTTERY TERMINALS IN NEW BRUNSWICK

CanadaWest FOUNDATION

The Canada West Foundation is a non-profit, non-partisan research institute located in Calgary, Alberta.

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This Gambling in Canada Special Report was produced to inform the debate on VLTs in New Brunswick by providing contextual and background information on VLTs prior to the May 14th, 2001 referendum on the removal of VLTs from the province.

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New Brunswick is the birthplace of Video Lottery Terminals (VLTs) in Canada. VLTs were first introduced into New Brunswick in 1990 after a 1985 Criminal Code amendment permitted provinces to operate electronic gaming machines. All provinces would eventually follow New Brunswick's lead and embrace electronic gambling through slot machines, VLTs, electronic bingo, satellite bingo and electronic keno. This report provides an overview of the development of VLT policy over the last dozen years and the current extent of VLT gambling in Canada.

VLTs are a unique form of gambling, different from other gambling in a number of ways. First, instead of coins, VLTs use "credits" that can not be redeemed until cashed-in elsewhere on the premises. This has the effect of psychologically separating the player from the amount won/lost or wagered. Second, VLTs operate much quicker than most forms of gambling, including many slot machines. This allows for more plays in single session, instant gratification and rapid wins or losses. Third, VLTs are more accessible. They are found in bars and lounges (traditional non-gambling venues), which increases the likelihood of casual play and exposes gambling to new audiences. Finally, video lottery is a relatively easy game to play. Virtually anyone can quickly learn to gamble on these machines without requiring any special skill. Together this combination presents a number of policy challenges that differentiate VLT gambling as a controversial form of gambling.

I. CANADA's VLTs

There are currently an estimated 38,048 VLTs to be found in 8,578 locations in Canada. On a per adult basis, there is roughly one VLT machine for every 600 adult Canadians. If we remove Ontario and BC from this calculation (as they have no VLTs), this ratio drops to one VLT for every 293 Canadians (Figure 1). Quebec hosts the most machines (15,221) and sites (4,141); overall, 40% of VLTs and almost half of Canada's VLT sites can be found in Quebec. However, considering the per adult measure, Quebec actually has the least number of VLTs (1 for every 370 adults). More densely VLT populated regions include Newfoundland (1 for every 162 adults) and Manitoba (1 for every 187 adults) and New Brunswick (1 for every 206 adults).

VLTs generate significant revenues. Actual rates vary from province to province, but it is estimated that for every $100 wagered in a VLT, there is a $30 profit. In sum, the nearly 40,000 machines in Canada generated government profits of $1.6 billion in 2000 (Figure 2). The largest revenue generators are Alberta and Quebec, each of which draws over $500 million in revenues from VLTs.

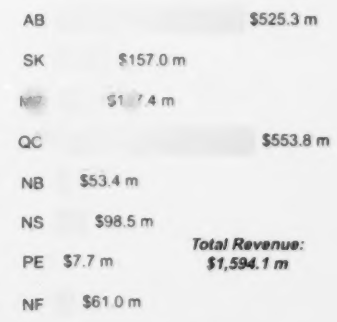
As a percentage of total own source revenue (all government revenue before federal transfers), VLT revenue accounts for nearly 2% in those provinces with machines (Figure 3). Given the magnitude of these data, the importance of VLTs as a single revenue source is evident. In fact, the reliance upon VLTs to generate

Figure 1: Number of Machines by Province

	# of VLTs	# of Sites	# of adults per VLT
AB	6,000	1,238	359
SK	3,497	619	211
MB	4,482	563	187
QC	15,221	4,141	370
NB	2,795	776	206
NS	3,100	600	230
PE	414	92	246
NF	2,539	549	162
Total	38,048	8,578	293

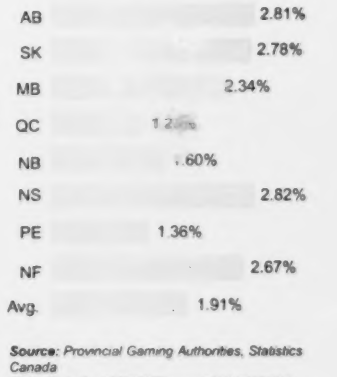
Source: Provincial Gaming Authorities, Statistics Canada

Figure 2: Total Government VLT Revenue



Source: Provincial Gaming Authorities
Note: Data for 1999/2000 except SK (1998/99)

Figure 3: % of Total Own Source Revenue Derived from VLTs



Source: Provincial Gaming Authorities, Statistics Canada
Note: Data for 1999/2000 except SK (1998/99)

such a large portion of total provincial revenue has prompted some critics to charge that governments themselves are "addicted" to VLT revenues. Provincially, Nova Scotia (2.82%), Alberta (2.81%) and Saskatchewan (2.78%) are the most reliant of VLT revenues and Quebec (1.28%), PEI (1.38%) and New Brunswick (1.60%) the least reliant.

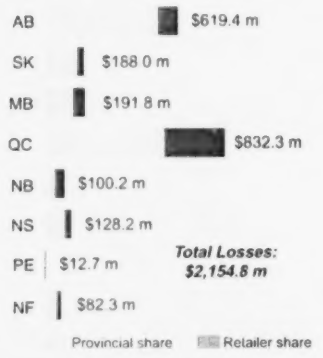
Provincial governments do not profit alone from VLTs; significant revenues are generated for businesses that host the machines on their premises. In 2000, these retailer licensees received, on average, 26% of the total profit generated by the VLTs. In aggregate, these commissions totaled $561 million, or $15,000 per machine. Further, because retailers generally have an average of 4.4 machines per location, the per siteholder average annual profit was $65,000 in 2000. Provinces operate different revenue sharing formulas and the amounts of commission paid varies greatly. The highest commission rates are in New Brunswick, where 47% of VLT revenues go to the private sector, far above the national average of 26%. Retailers in New Brunswick take almost as much from VLTs ($47 million) as does the government ($53 million). The lowest commissions are paid in Alberta (15%) and Saskatchewan (17%).

Another way of looking at VLT revenue numbers is to consider the source of the revenues—gambling losses. Combining retailer commissions and provincial revenues gives the value of the losses incurred (or the cost of playing VLTs). In 2000, VLT gamblers put an estimated $7 billion into VLTs and were paid out only $4.9 billion—a $2.1 billion net loss (or cost of play)(Figure 4). Losses were highest in Quebec ($832 million) and Alberta ($619 million).

The per adult calculation of gambling losses provided in Figure 6 allows for on par provincial comparisons. Using this measure, the per adult per year loss was highest in Western provinces ($287 per adult in Alberta, $254 per adult in Saskatchewan and $229 per adult in Manitoba) and lowest in PEI ($125 per adult) and Quebec ($148 per adult). Nationally, the average loss for those provinces with VLTs was $193 per adult per year.

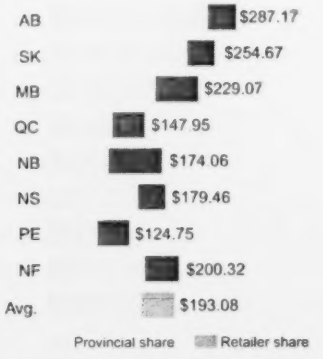
On a per machine basis, Alberta VLTs are by far the busiest (Figure 5). Although fewer in numbers (1 for every 359 persons—the second lowest provincial ratio), these machines are extremely popular. Alberta leads the nation in yearly losses per adult ($287) and per machine ($103,233). The least busy machines are found in PEI ($30,686 per machine), Newfoundland ($32,395 per machine) and New Brunswick ($35,845 per machine). These data reflect both playing habits and market saturation among the provinces.

Figure 4: Total Player Losses by Province



Source: *Provincial Gaming Authorities*
Note: *Data for 1999/2000 except SK (1998/99)*

Figure 5: Per Adult Losses by Province



Source: *Provincial Gaming Authorities, Statistics Canada*
Note: *Data for 1999/2000 except SK (1998/99). Does not account for out-of province VLT play*

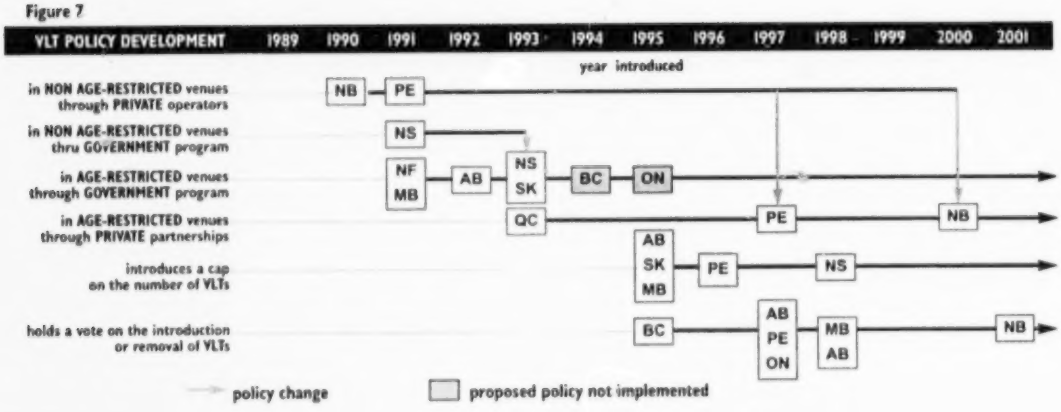
Figure 6: Per Machine Losses by Province

Source: *Provincial Gaming Authorities*
Note: *Data for 1999/2000 except SK (1998/99)*

2. VLT POLICY DEVELOPMENT IN CANADA

VLTs were first introduced across Canada for three main reasons. First, legal VLTs were sought to combat the proliferation of illegal gambling machines. A number of media and RCMP reports suggested that illegal gambling machines could be found in some locations, but there was no knowledge of how many illegal machines were actually in use. Second, provinces argued the need to compete

Figure 7



Source: Canada West Foundation

with other other jurisdictions that had already legalized gambling. Third, VLTs were seen as a means of supporting the rural hotelier industry by providing a much-needed stable revenue source. These arguments proved persuasive; by 1996, all provinces had introduced VLTs except Ontario and British Columbia.

The evolution of VLT policy in Canada is illustrated in Figure 7. As shown, the provinces chose different paths of introduction, with varying degrees of success. The first VLTs were introduced in New Brunswick in 1990 and were available in non-age restricted locations such as bowling alleys and corner stores, and owned through a joint partnership with government with the retailer and province participating in a cost and revenue sharing arrangement. This VLT model would quickly prove unpopular; by 1993 new provinces introducing VLTs only placed them in age-restricted locations. Following suit, by 2000 VLTs were eventually restricted to liquor licensed premises in New Brunswick, Nova Scotia and PEI. The joint partnership model would also prove problematic subsequent provincial introduction of VLTs was done on a government-owned basis, where retailers would receive a commission.

There were two overarching VLT policy developments that occurred in response to public pressure and concern over the merits of the machines. First, provinces introduced caps on the total number of machines that would be permitted in the province and the number of machines allowed in a location. The caps guaranteed that retailer commissions for existing site holder licensees would remain stable in the absence of market saturation and created a waiting list of hotels and bars that wanted access. The introduction of caps also appeased concerns that the popularity of the machines as a government revenue source would lead to a further expansion in the number of machines. However, this cap did not prevent the expansion of other forms of electronic gambling. Alberta, Saskatchewan and Manitoba have each expanded the number of slot machines in its casinos since the introduction of a VLT cap.

The second significant gambling policy has been the use of community consultation. VLT gambling was introduced in Canada without public consultation. There did not exist a strong public demand for the machines, nor any significant lobby group; VLTs were primarily a revenue scheme for provincial governments and small businesses. As public awareness of the machines increased post-introduction, citizens demand an opportunity to express their concerns. Governments responded by providing a number of post-introduction citizen consultation options including electronic gambling conferences, gaming summits and formal reviews of gambling. In some cases, citizens have also been given the opportunity to vote of the removal and introduction of VLTs through municipal plebiscites.

3. VLT VOTING IN CANADA

In May 2001, the Province of New Brunswick will make history by holding the first province-wide vote on the removal of VLTs. Prior votes have each occurred in some municipalities in Alberta (1997-1998), Manitoba (1998) and PEI (1997). In addition, Ontario (1997) and BC (1996) consulted with citizens through municipal votes when they considered the introduction of VLT gambling. However, New Brunswick's May 14th vote represents the first time that a entire province will have the opportunity to vote on this issue.

The last major vote on VLTs occurred on October 19, 1998 in Alberta. At that time, residents of 35 municipalities (including the seven largest cities in the province), representing two-thirds of eligible voters, earned the right to vote on the removal of VLTs through a historic municipal petition campaign. The outcome of that election provides some important insight leading up to the New Brunswick vote.

Ultimately, after an intense campaign waged by both proponents and opponents of VLTs, 28 of the 35 Alberta communities voted to keep the machines. The popular vote was actually much closer. Overall, 45.1% voted to remove the VLTs and 54.9% to keep them (Figure 9). In Edmonton, the margin was razor thin; only 611 votes separated the two sides. The Edmonton result was critical; a vote to reject VLTs in Edmonton would have created a politically untenable situation in which the VLT tax revenue raised from across the province would have helped fund the education, health, social services and community groups of a VLT-free Edmonton.

In the more than two years since VLTs were voted out of these seven communities, the government has been unable to fulfill its promise to abide by the votes—no VLTs have been removed from any of these municipalities. This long delay has been caused by a constitutional challenge to the Alberta government's authority to revoke its contract with the VLT retailers. Currently, the latest round of legal challenges is still awaiting an Alberta court date. In the meantime, the government has stopped putting new VLTs in those communities that voted them out, and as a result, attrition has allowed for the removal of some VLTs.

One important lesson from the Alberta experience was that the plebiscite will not resolve the VLT question, it is likely only the first step. Legal challenges of these kind are almost assured in the event of a vote to remove VLTs in New Brunswick. Lawsuits, though expensive, are essentially self-funding propositions for VLT retailers. While legal action is being considered, the VLTs continue to generate large commissions. The Act that prompted the vote, the wording of the question, the vote itself and the VLT agreements will each come under exhaustive legal scrutiny in the event of a vote to remove the machines.

Immediately following the Alberta votes, Canada West surveyed the population to understand peoples rationale for voting as they did. This post-election surveying provided a explanation of the Alberta result. During the public debate

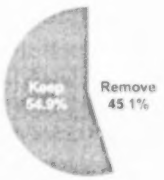
Figure 8: Alberta VLT Question

Each municipality in Alberta voted on a slightly different question. The question Calgary voters considered was:

"Should the City of Calgary request that the provincial government take appropriate action to remove all Video Lottery Terminals (VLTs) from our City?"

Source: City of Calgary Municipal Election, 1998

Figure 9: Alberta VLT Plebiscite Results (Aggregate)



Voted to Keep:

Beaumont	Edmonton	Picture Butte
Black Diamond	Edson	Pincher Creek
Bretton	Ft. Saskatchewan	Ponoka
Bruderheim	Grande Cache	Red Deer
Calgary	Hinton	St. Albert
Camrose	Jasper	Spruce Grove
Coalhurst	Lethbridge	Strathcona Pl.
Devon	Leduc	Wetaskiwin
Didsbury	Medicine Hat	
Drayton Valley	Olds	

Voted to Remove:

Canmore	Lacombe	Stoney Plain
Coledale	Lethbridge City	
High Level	Opportunity (MD)	

Other Alberta Votes:
Rocky Mountain House (Remove) February 1997
Sylvan Lake (Remove) April 1997
Wood Buffalo (Remove) May 1997
Barrhead (Keep) September 1997
Lacombe (Vote Invalidated) October 1997

Source: *Canada West Foundation*

Figure 10: Reason for Voting

Q: What was your primary motivation for voting to REMOVE VLTs? (n=283)

29% *High Social Cost of VLTs*

21% *VLTs are Addictive*

16% *Know a Problem Gambler*

13% *VLTs Lower Quality of Life*

Q: What was your primary motivation for voting to KEEP VLTs? (n=374)

Freedom of Choice: **66%**

5% *VLTs provide Economic Benefits*

5% *VLTs fund good programs*

Source: *Alberta Civil Society Survey, 1998*
Note: *Sample is accurate to +/- 3.5%, 19 times out of 20*

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Devon	Leduc	Wetaskiwin
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leading up to the vote, supporters of VLTs had a clear message that Canadians have the "freedom of choice" and "right to gamble" on VLTs. They successfully argued that only people who wanted to gamble on VLTs did so, therefore the harm associated with VLTs was willingly accepted by players. This argument proved extremely effective; of those who indicated they voted to keep VLTs, 66% indicated their motivation was the freedom of choice argument (see Figure 3). The anti-VLT forces could not counter this message with an equally simple concept. Polling results suggest a number of messages influenced voters who wanted the VLTs removed, none of which was dominant. However, as the next section suggests, the anti-VLT voices in New Brunswick may have a less difficult time translating their messages.

ATTITUDES TOWARDS VLTs IN ATLANTIC CANADA

In June 1999, Canada West Foundation undertook a national survey of Canadian gambling behaviour and attitudes. The sample included 402 respondents from the Atlantic provinces. The next section examines the attitudes and behaviour of those Atlantic Canadians toward VLTs and contrasts the attitudes with those of other Canadians.

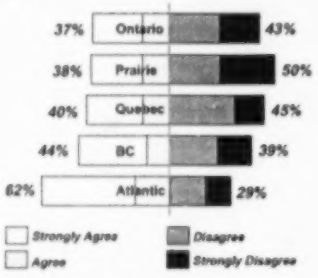
One of the strongest conclusions coming out of the study is that Atlantic Canadians are much more anti-gambling and specifically anti-VLT than the rest of the country. Indeed, if there is one region in which a VLT removal referendum could be expected to succeed, it is Atlantic Canada. The survey asked Canadians if VLTs should be banned from their province. The result show a strongly anti-VLT Atlantic region; 62% agreed that VLTs should be banned (45% strongly agreed and17% somewhat agreed) (Figure 11). Only 29% disagreed (12% strongly disagreed and 17% somewhat disagreed) that VLTs should be banned. These results differ starkly from the rest of Canada. No other region had majority support for this notion–not even in Ontario and BC where the machines are currently banned. Overall, Atlantic Canada is the most anti-VLT region in Canada.

Atlantic Canadians favour more restrictions on all gambling generally, not just VLTs. As shown in Figure 12, 6 in 10 Atlantic Canadians in the survey felt that there should be more restriction on gambling, whereas only 5% felt there should be less. Atlantic Canadians were also the most likely region to favour more restriction. Overall, on survey questions related to the regulation of gambling, Atlantic Canadians favoured a less tolerant approach than elsewhere in Canada.

There was a strong sentiment across the Atlantic region that gambling problems are on the increase. Although only a measure of perception, nearly three-quarters of respondents felt that gambling problems had increased in the three years before the survey (Figure 13). As with many issues on the survey, Atlantic Canadians showed they were the most concerned about the social cost of gambling. The impact of gambling on individuals and communities is of greater concern in this region than elsewhere.

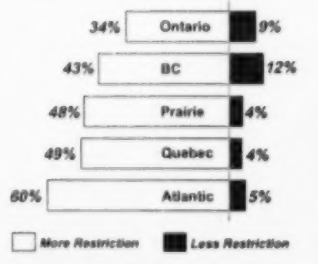
The telephone survey was administered to 2,202 randomly selected Canadians in June 1999. The sample included 402 respondents in the Atlantic region which were weighted to reflect Canadian population distributions. The results for the survey as a whole are accurate to within +/- 2.1%, 19 times out of 20. Results for the Atlantic region alone within +/- 4.9%, 19 times out of 20. For more information see: Canadian Gambling Behaviour and Attitudes: Main Report, Canada West Foundation, December 2000.

Figure 11: "VLT gambling should be banned in your province"



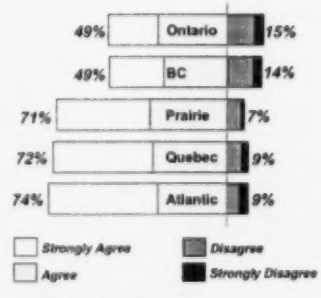
Source: Canada West Foundation
Note: Graph only represents those respondents with an opinion

Figure 12: "Would you like to see more restrictions, less restrictions or about the same level of restrictions on gambling in your province?"



Source: Canada West Foundation
Note: Graph only represents those respondents with an opinion

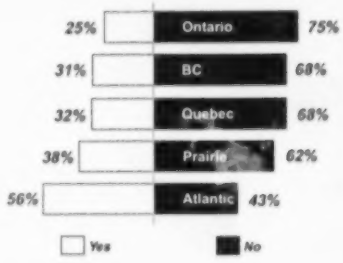
Figure 13: "Gambling-related problems have increased in the last three years"



Source: Canada West Foundation
Note: Graph only represents those respondents with an opinion

Overall, Atlantic Canadians are much more aware of problem gambling and problem gamblers. The survey asked if respondents knew of someone they thought might be a problem gambler. Remarkably, more than half of Atlantic respondents felt they knew someone that was a problem gambler, over twice the rate of Ontario and significantly higher than the next highest region (the Prairies, at 38%). It is unlikely that this result reflects a higher rate of gambling problems within the Atlantic region as problem gambling prevalence rates across all provinces are relatively consistent. Rather, this result speaks to a higher profile of problem gamblers in the Atlantic region, an awareness that is reflected throughout the survey data.

Figure 14: "Do you know someone who is a problem gambler, that is, they spend more than they can afford on gambling"

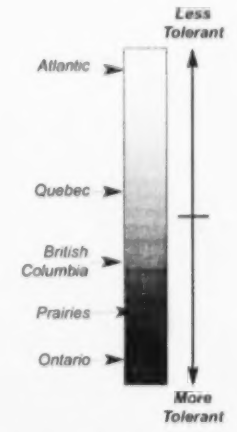


Source: *Canada West Foundation*

Finally, looking VLT behaviour, our survey data show that 12% of Atlantic Canadians had played a VLT in the 12 months before the survey. Within the regions where VLTs are available, Atlantic Canadians rank second behind the Prairie region (18%) and ahead of Quebec (9%) in VLT gambling prevalence. Of those who do play VLTs, 20% were frequent VLT gamblers, playing more than once a week; 30% were regular gamblers, playing once or twice a month and 50% were infrequent gamblers, playing only a few times a year.

Across the 33 survey questions measured by Canada West, it was consistently shown that Atlantic Canadians' attitudes differ from the rest of Canadians. Specifically, they are the most concerned about the social costs of gambling, are least supportive of the community benefits of gambling, least supportive of the reduced debt/deficit benefits of gambling and most aware of problem gambling issues. As illustrated in Figure 15, Atlantic Canadians were much less tolerant of gambling than the rest of Canada. The region expressed the stronger reservations about the impact of gambling on individuals and communities.

Figure 15: Gambling Continuum



Source: *Canada West Foundation*

CONCLUSION

A number of factors suggest the upcoming vote in New Brunswick on VLTs will be a landmark event in the development of Canadian gambling policy. First, the outcome of the vote will certainly have spillover effects on all provincial VLT policies. In particular, a strong signal would be sent by voters opting to remove VLTs from the province in which they were first introduced in Canada. Such an result may lead to an evaluation of VLT policies of the other provinces. Second, by allowing this vote on VLTs, the province of New Brunswick has included citizens in the development of gambling policies in an historic fashion. This is an important experiment in democratic citizen control of gambling policy that will undoubtedly be studied by all provinces as a future decision-making mechanism. Finally, pre-campaign surveys clearly predicts a rejection of the VLTs is likely. The vote outcome will provide a strong indicator of the impact that public campaigning can have on gambling policy.

While many actors and voices will ultimately influence the outcome of the May 14th, 2001 VLT vote, there is no doubt that Atlantic Canadians have been given a historic opportunity to express their concerns. The rest of the country awaits the outcome.